

Message Text

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C O N F I D E N T I A L STATE 306585

FOLLOWING REPEAT BONN 21175 SENT ACTION SECSTATE INFO BRUSSELS
LONDON PARIS TOKYO GENEVA USNATO DEC 22.
QUOTE C O N F I D E N T I A L BONN 21175

USEEC, USOECD, USMTN

E.O. 11652: GDS

TAGS: ECON, EFIN, ETRD, PGOV, OECD, GATT, JA, US, GW

SUBJ: US-JAPAN ECONOMIC TALKS

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297097, (D) BONN 20749, (E) STATE 304086,
(F) LONDON 20535, (G) BRUSSELS 19133

1. SUMMARY: ECONOMIC COUNSELOR DISCUSSED US-JAPAN
ECONOMIC RELATIONS ON DECEMBER 21 AND 22 WITH OFFICIALS
OF FRG ECONOMICS MINISTRY AND FOREIGN OFFICE AT DEPUTY
ASSISTANT SECRETARY LEVEL. FROM THESE DISCUSSIONS IT
IS CLEAR THAT THE GERMANS ARE SUPPORTIVE OF OUR EFFORTS
AND HAPPY THAT WE HAVE PUT PRESSURE ON THE JAPANESE.
THEY RECOMMEND CONTINUED PRESSURE, BUT THEY ALSO CAUTION
US THAT THERE ARE TWO RISKS FROM EXCESSIVE PRESSURE:
(A) A SUDDEN SURGE OF IMPORTS INTO JAPAN MIGHT HAVE A
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 306585

DEPRESSIVE EFFECT ON THE JAPANESE ECONOMY, WHICH IS
CONTRARY TO BOTH JAPANESE AND WORLD INTEREST; AND (B)
THE APPEARANCE OF "GANGING UP" COULD STIR UP DOMESTIC
POLITICAL ELEMENTS IN JAPAN, WHICH COULD ALSO HAVE A
COUNTER-PRODUCTIVE EFFECT. NEVERTHELESS, ON BALANCE,
WE READ THE FRG COMMENTS AS STRONGLY SUPPORTIVE OF
CONTINUED US PRESSURE ON JAPAN. END SUMMARY.

2. ECONOMIC COUNSELOR HAD LENGTHY DISCUSSIONS BASED ON REFTELS A, B AND C WITH DEPUTY ASSISTANT SECRETARY ABRAMOWSKI IN THE FRG ECONOMICS MINISTRY ON DECEMBER 21 AND FREITAG OF THE FOREIGN OFFICE ON DECEMBER 22. BOTH THANKED US FOR INFORMING THEM OF DISCUSSIONS IN TOKYO AND WASHINGTON AND EXPRESSED GENERAL AGREEMENT WITH OUR APPROACH. THEY WELCOMED OFFER OF CONTINUING CLOSE CONSULTATION. BOTH SAID FRG, IN ITS DISCUSSIONS WITH JAPANESE OFFICIALS, HAS EMPHASIZED THE RISK OF SERIOUS PROTECTIONIST MEASURES IF THE JAPANESE TRADE BALANCE IS NOT IMPROVED PROMPTLY.

3. BOTH ABRAMOWSKI AND FREITAG POINTED OUT THAT VARIOUS MEMBERS OF THE EUROPEAN COMMUNITY HAVE DIFFERING TRADE INTERESTS WITH RESPECT TO JAPAN; FOR EXAMPLE, GERMANY IS INTERESTED PRIMARILY IN EXPORTS OF INDUSTRIAL PRODUCTS, WHEREAS OTHER EC COUNTRIES SHARE US INTERESTS IN AGRICULTURAL EXPORTS. REDUCTIONS OF CUSTOMS DUTIES, HOWEVER--EVEN IF ACCELERATED UNDER MTN--WILL NOT SOLVE THE PROBLEM, BECAUSE JAPANESE CUSTOMS DUTIES ARE ALREADY RELATIVELY LOW.

4. ABRAMOWSKI CALLED ATTENTION TO SEVERE STRUCTURAL PROBLEMS RESULTING FROM UNIQUE JAPANESE PRACTICES, SUCH AS THE MODUS OPERANDI OF THE JAPANESE TRADING HOUSES.
CONFIDENTIAL

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PAGE 03 STATE 306585

THESE HAVE RESULTED IN JAPANESE IMPORTS OF MANUFACTURED PRODUCTS BEING LESS THAN HALF AS LARGE A PROPORTION OF TOTAL JAPANESE IMPORTS AS IS TYPICAL OF ALL OTHER MAJOR INDUSTRIAL COUNTRIES IN THE WORLD.

5. ABRAMOWSKI SAID THAT THE FRG HAD ENCOURAGED THE JAPANESE NOT TO BE AFRAID OF REVALUATION OF THE YEN, MENTIONING THAT THE JAPANESE ARE ONLY "AT THE BEGINNING OF THIS PROCESS". HE CALLED ATTENTION TO SPECIAL PROBLEMS RESULTING FROM THE LACK OF FULL INTERNAL CONVERTIBILITY OF THE YEN, SUCH AS THE PRACTICAL PROBLEMS CONFRONTED BY JAPANESE TOURISTS RETURNING TO JAPAN AND WISHING TO CONVERT DOLLARS INTO YEN.

6. BOTH FREITAG AND ABRAMOWSKI AGREED THAT EUROPEAN AND AMERICAN FIRMS DO NOT MAKE A SUFFICIENT SALES EFFORT IN JAPAN. ABRAMOWSKI MENTIONED THAT THERE ARE 6,000 JAPANESE IN DUSSELDORF WHO ARE ACTIVELY PROMOTING JAPANESE EXPORTS. HE RECOGNIZED THAT THE JAPANESE METHOD OF EXPORT PROMOTION, WHICH IS OBVIOUSLY VERY EFFECTIVE, COULD NOT BE ADOPTED BY EUROPEAN AND AMERICAN FIRMS, BECAUSE THE LATTER ARE UNWILLING TO GIVE UP

THEIR INDEPENDENCE OF ACTION IN THE WAY THAT THE JAPANESE HAVE DONE. NEVERTHELESS, MORE COULD BE DONE.

7. ABRAMOWSKI AND FREITAG ADVISED AGAINST US AND EC DEMARCHES WHICH ARE TOO OBVIOUSLY COORDINATED (SEE REFTEL F), BECAUSE OF THE SENSITIVITY OF THE JAPANESE NATIONAL CHARACTER TO EXTERNAL DICTATION AND THE RISK OF COUNTERPRODUCTIVE EFFECTS.

8. FREITAG ALSO REPORTED ON THE STATEMENTS OF STATE MINISTER VON DOHNANYI AT THE EC COUNCIL IN BRUSSELS ON DECEMBER 20. VON DOHNANYI SAID THAT THE MEASURES THE JAPANESE HAVE ALREADY TAKEN, WHILE HELPFUL, ARE INSUFFICIENT AND THAT A DRASTIC INCREASE

CONFIDENTIAL

PAGE 04 STATE 306585

IN JAPANESE IMPORTS IS NECESSARY IF THE MULTILATERAL TRADE NEGOTIATIONS ARE TO SUCCEED. VON DOHNANYI EXPRESSED STRONG DOUBTS AS TO THE LIKELIHOOD OF SUCCESS IN REACHING JAPANESE GNP GROWTH GOAL OF SEVEN PERCENT IN 1978. HE EMPHASIZED THE STRUCTURAL PROBLEMS WHICH JAPAN FACES, INCLUDING THE FACT THAT ONE OUT OF FOUR JAPANESE FIRMS IS OPERATING AT A DEFICIT AND THE FACT THAT REAL UNEMPLOYMENT IN JAPAN IS 6.5 PERCENT OF THE LABOR FORCE, RATHER THAN 2 PERCENT AS INDICATED BY OFFICIAL STATISTICS. JAPANESE INDUSTRIAL CAPACITY EXCEEDS DOMESTIC DEMAND IN MANY IMPORTANT SECTORS BY MORE THAN 100 PERCENT.

9. FREITAG ALSO CONFIRMED OTHER ELEMENTS OF THE BRUSSELS DISCUSSION OF THE JAPANESE SITUATION AS REPORTED IN REFTEL G. IN ADDITION TO REPORTING ON JENKINS' STATEMENTS, FREITAG EMPHASIZED THE FRENCH INTERVENTION WHICH URGED THE JAPANESE TO FOLLOW THE EC EXAMPLE OF A LIBERAL TRADE POLICY.

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